

Manual Title	Section	Page
Accounts Receivable and Reimbursement Procedures	40	1
Chapter Subject	Issue Date	
<b>FISCAL AND ACCOUNTING</b>	May 27, 2003	

.100	ACCOUNTS RECEIVABLE - GENERAL
.200	COST ACCOUNTING FOR RATE SETTING
.210	COST ACCOUNTING DEFINED
.220	RATE SETTING DEFINED
.230	COST ACCOUNTING PROCESS FOR CSBs
.240	ALLOWABLE VS. NON-ALLOWABLE COSTS
.250	COST REPORTING
.300	RECONCILIATIONS
.310	REVENUES
.320	SERVICES
.400	INTERNAL CONTROLS

Manual Title	Section	Page
Accounts Receivable and Reimbursement Procedures	40	2
Chapter Subject	Issue Date	
<b>FISCAL AND ACCOUNTING</b>	May 27, 2003	

## **.100                    ACCOUNTS RECEIVABLE - GENERAL**

The Accounts Receivable or Reimbursement activity of a CSB is an integral part of that Board. The Reimbursement activity is required by the Code of Virginia, § 37.1-197(7). Reimbursement is also an essential element of the total funding required by the Board for programs for its citizens.

The elements of an effective accounts receivable system are:

1.        establishing charges for services rendered;
2.        collection of accurate client data;
3.        billing clients or third-party insurers for delivery of such services;
4.        collection of monies as payment for such services; and
5.        providing reports of these activities to monitor the progress of the accounts receivable system.

The ultimate goal of the accounts receivable process is the recovery of the cost of providing the various services to the clients.

The State Board Policy that is part of the reimbursement system for public providers is the **Ability to Pay** policy, whereby the provider must determine what the client is able to pay towards the cost of his/her service. The adjustment of such accounts is also a part of the accounts receivable system.

It is the responsibility of Board management to analyze the components of the accounts receivable system for potential weaknesses, and review the reports on a regular basis to assess the effectiveness of the current system.

## **.200                    COST ACCOUNTING AND RATE SETTING**

The most prevalent method businesses use for setting a charge for the goods or services is by relating the charge to the cost of providing those goods or services. CSBs should set their rates at the cost of providing the service in order to help offset their overall cost of operations.

### **.210                    COST ACCOUNTING DEFINED**

Cost accounting is the process an organization uses to determine the full cost of providing a unit of goods or services. In the process of cost accounting, the direct costs of providing the product such as salaries and materials are considered; however, indirect costs such as administration, payroll, and utilities are allocated to each unit of goods or

Manual Title	Section	Page
Accounts Receivable and Reimbursement Procedures	40	3
Chapter Subject	Issue Date	
<b>FISCAL AND ACCOUNTING</b>	May 27, 2003	

services provided. Through this method of cost allocation, the true cost of providing one unit of goods or service can be determined. When used as a tool to set charge rates, the full cost of a product can be recovered.

## **.220 RATE SETTING DEFINED**

Rate setting can be defined as the process by which an organization sets a charge rate it feels is fair and reasonable for its goods or services. These charge rates are set based on the financial requirements of the organization, and are used to cover the cost of providing the goods or services. For-profit organizations also take into account a profit component and a return on shareholders' investments.

## **.230 COST ACCOUNTING PROCESS FOR CSBs**

CSBs are required to submit annual budgets and performance contracts to DMHMRSAS prior to the beginning of their fiscal year. These reports require the CSB to provide information on types of services offered by the CSB, along with projected units of service and direct costs of that service. In addition, administrative costs are required to be allocated to each disability area. Using this information, the unit cost of each service can be determined.

For example, consider a CSB's mental health emergency services area. This area employs 5 FTE's, with total salary expenses of \$100,000, and total non-salary expenses of \$20,000. The estimated units of service for the budgeted fiscal year are 3,000. Additionally, the total amount of administrative expenses allocated as overhead to the mental health division for the budget year is \$85,000, and the mental health division employs a total of 40 FTE's. Below is the calculation for the unit cost for mental health emergency services.

Manual Title	Section	Page
Accounts Receivable and Reimbursement Procedures	40	4
Chapter Subject	Issue Date	
<b>FISCAL AND ACCOUNTING</b>	May 27, 2003	

#### DIRECT COST -

##### Direct expenses-

Salary	\$100,000
Non-salary	<u>20,000</u>

Total direct	\$120,000
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Total direct	<u>\$120,000</u>
Units of service	3,000 = \$40 direct cost per unit

##### Indirect Expenses -

Adm. O/H	<u>\$ 85,000</u>
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Total FTE's	40 = \$2,125 per FTE
Cost/FTE	\$ 2,125
Program FTE's	<u>x 5</u>
Program O/H	\$ 10,625

Program O/H	<u>\$ 10,625</u>
Units of service	3,000 = \$ 3.54 indirect cost per unit

#### Total Unit Cost -

Direct cost per unit	\$ 40.00
Indirect cost per unit	<u>3.54</u>
Total cost per unit	<u>\$ 43.54</u>

The total cost per unit of mental health emergency services is \$43.54 in this example. To allow for inflation through the year and unanticipated expenditures, a fair charge for one unit of emergency services would be \$45.

This same procedure should be followed for each type of service provided by the CSB, whether or not a fee is charged for the service.

Additional information may be obtained from the DMHMRSAS' CSB Financial Management Standards and Accounting Procedures manual.

Manual Title	Section	Page
Accounts Receivable and Reimbursement Procedures	40	5
Chapter Subject	Issue Date	
<b>FISCAL AND ACCOUNTING</b>	May 27, 2003	

## **.240 ALLOWABLE VS. NON-ALLOWABLE COSTS**

It is important to realize that not all costs are allowed by all payers, particularly as they relate to Medicare and Medicaid. Only costs that are directly related to the care and maintenance of clients are generally allowed, with overhead for administration of the program, maintenance of the physical plant, and depreciation of related fixed assets.

## **.250 COST REPORTING**

ICF/MRs require a cost report to be submitted on an annual basis after fiscal year end. This report must be submitted within 90 days from the close of the fiscal year.

While some information and schedules are program-specific, the basic information is similar for all cost reports. The following information is necessary for all reports:

1. Census days or visits;
2. Total FTE's for the program;
3. Salary and non-salary expenses, by department or contractual provider;
4. Itemized expenses in the non-salary administration expense category;
5. Adjustment of non-allowable expenses from the affected categories;
6. A schedule to summarize and accrue remittances for the year;
7. A schedule summarizing total expenses, total charges, total payments, and a total amount due to the intermediary or to the provider.

Instructions for completing the reports are included in the manuals furnished by the intermediary.

Manual Title	Section	Page
Accounts Receivable and Reimbursement Procedures	40	6
Chapter Subject	Issue Date	
<b>FISCAL AND ACCOUNTING</b>	May 27, 2003	

## **.300 RECONCILIATIONS**

### **.310 REVENUES**

Revenues must be balanced on a daily basis. This process would include verifying that all service tickets issued to clinical staff are returned to the reimbursement office for proper posting to the client's account.

Each service ticket should have an appropriate charge for the service rendered. At the end of the business day, the charges for services rendered should be totaled, and should reconcile to the amount of charges posted to all client accounts for the day.

Over the counter cash receipts and mail receipts must be reconciled as prescribed in the Financial Management Standards and Accounting Procedures manual for CSBs.

### **.320 SERVICES**

Services should be balanced at least on a weekly basis, if possible.

The service indicated on the tickets should be checked against those listed on any available reports.

## **.400 INTERNAL CONTROLS**

Internal control consists of the plan of organization and the methods and measures to:

1. safeguard assets
2. check accuracy and reliability of accounting data
3. promote operational efficiency
4. encourage adherence to prescribed managerial policies

Manual Title	Section	Page
Accounts Receivable and Reimbursement Procedures	40	7
Chapter Subject	Issue Date	
<b>FISCAL AND ACCOUNTING</b>	May 27, 2003	

A system of strong internal controls can minimize a CSB's exposure to:

1. fraud, abuse, and waste
2. budget deficits
3. non-compliance with Board policies and procedures
4. inaccurate financial reporting
5. public scrutiny due to financial improprieties

The Executive Director has the ultimate responsibility for the system of internal controls. The Fiscal Director shall be tasked with implementing the system of internal controls.

There are nine standards of internal control. They are:

1. Documentation – Internal controls should be documented.
2. Recording – Transactions should be recorded as executed and should be classified properly.
3. Authorization – Transactions should be executed as authorized.
4. Structure – Key duties should be separated so that no one person controls all phases of an activity.
5. Supervision – Supervisors should ensure that procedures are followed.
6. Security – Access to assets is limited to authorized personnel.
7. Competent Personnel – Key personnel should be competent and have high standards of integrity and demonstrated experience that will enable them to perform accounting functions.
8. Reasonable Assurance – Internal controls provide reasonable, but not absolute assurances that control objectives will be accomplished.
9. Records – Records should be secure from unauthorized use.

There are three basic tools to use when documenting and analyzing internal control strengths and weaknesses: flowcharting, narratives, internal control questionnaire.

1. Flowcharting is a graphic presentation of the major processes involved in an operation.
2. Narratives are written descriptions of the major processes involved in an operation.
3. An Internal Control Questionnaire is a document used to assess the adequacy of controls relating to operations. The questionnaire is structured to make assessments of the nine standards of internal control.